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9/5/97

TO: AIAM Consumer Relations Committee
AIAM Government Relations Committee
AIAM Lawyers Committee
AIAM Manufacturing Operations Issue Group
AIAM Public Relations Committee
AIAM State Relations Committee
AIAM Taxation Committee
AIAM Technical Committee

FROM: Philip A. Hutchinson, Jr. 
President

RE: **PRIORITY AGENDA STATUS REPORT - September 1997**

Enclosed is the September Priority Agenda Status Report to the Board of Directors. The Board of Directors adopted the Priority Agenda process as a means of highlighting key AIAM issues that merit special Board attention.

The current Priority Agenda items include:

- Adopt the 49-State Emission Program/Eliminate ZEV mandate.
- Harmonize International Safety and Emission Standards.
- Participate in the Development of National Policy on Global Warming and the Environment.
- Exempt Auto Industry from Fastener Quality Act.
- Mitigate Adverse Impact of MMT Usage.
- Promote Air Bag Safety.
- Improve Public Awareness.
- Revise State Franchise Laws.

Regards.



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Priorities Agenda

Status Report

September 1997

ADOPT 49-STATE EMISSION PROGRAM/ELIMINATE ZEV MANDATE

Impact:

Northeast states adoption of the industry-sponsored 49-state emission program (in EPA parlance, the National Low Emission Vehicle Program or NLEV) would lead to uniform emission standards in all states but California, easing the industry's regulatory burden. This would reduce both manufacturing and distribution costs. Repeal of the Zero Emissions Vehicle (ZEV) mandates in Massachusetts and New York and modification of the mandate in California permits the industry to meet market demand absent government mandates. Manufacturers would avoid costs of selling ZEV vehicles in a limited market, possible fines for missing the mandate, and development costs for those manufacturers choosing not to compete.

Measurement of Success:

Adoption of 49-State NLEV program by EPA and the Northeast Ozone Transport Commission states and elimination or deferral of the ZEV mandates in Massachusetts and New York.

Current Status:

EPA's Supplemental Notice of Proposed Rulemaking on the NLEV Program was published on August 22, 1997. Comments are due in 30 days and it would appear at this point that no one has asked for a hearing, which would only delay the process. AIAM is drafting comments for review by member companies. Once final, the states will have up to 45 days to sign-up. The industry will then be given an additional 15 days from that point to agree to the program. It is expected that Massachusetts will not sign up to the program and it is unclear whether others will join them. It is also not clear what reaction the industry will have to a number of states not signing up to the program.

It does not appear that Governor Celluci, who replaced Governor Weld in Massachusetts, will take any action regarding the Massachusetts program or its ZEV mandate. He will be campaigning to retain his position as Governor next fall. He would not gain any political benefit from changing the state's position on NLEV and ZEVs at this point and could lose the "environmental" vote.

Options:

1. Continue this effort as an AIAM priority

Lead Committee:

Technical Committee	Don Bearden (Subaru), Chair	(609) 488-8644
	Greg Dana, AIAM Staff	(703) 525-7788

HARMONIZE INTERNATIONAL SAFETY AND EMISSION STANDARDS

Impact:

AIAM involvement is designed to assist harmonization activities so that application of uniform standards will allow lower regulatory compliance costs for members.

Measurement of Success:

Adoption of international harmonization as a U.S. government trade policy and as a priority for the National Highway Traffic Safety Administration (NHTSA) and the Environmental Protection Agency (EPA).

Background:

There has been considerable activity over the last two years by the worldwide auto industry to convince Governments that harmonization of safety and emission standards should be a trade policy and be actively pursued. The primary efforts have been through agreements between automotive trade associations working with business alliances and working with regional economic integration organizations. AIAM participates to 1) monitor and report on harmonization activities, 2) to provide recommendations on the process of harmonization, and 3) continue to raise harmonization in NHTSA and EPA forums.

The current favored process is to base harmonization on the "functional equivalency" of standards, which is defined as covering the same safety or emissions need, with similar provisions and tests, and resulting in similar compliance approaches. Functional equivalency would be the basis for mutual recognition of vehicle compliance between countries.

Current Status:

On August 13, AIAM joined with AAMA and submitted a petition to NHTSA to modify five U.S. safety standards by adding the functionally equivalent European standards to the U.S. standards as an optional compliance requirement. This is the first substantive step in developing globally harmonized standards. The petition is based on technical work by U.S., Japanese, and European automotive safety experts, reflecting a global involvement and commitment to harmonization.

Options:

1. Continue current activities to promote harmonization and to initiate harmonization actions.
2. Drop this priority since harmonization now has sufficient momentum to continue without special promotion.

Lead Committee:

Technical Committee

Don Bearden (Subaru), Chair
George L. Parker, AIAM Staff

(609) 488-8644
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PARTICIPATE IN THE DEVELOPMENT OF NATIONAL POLICY ON GLOBAL WARMING AND THE ENVIRONMENT

Impact:

Worldwide negotiations have been going on for a number of years in an attempt to reach an agreement on measures to reduce greenhouse gases, which are believed to be contributing to global warming. Adoption of such an agreement is likely to result in an effort to increase the Corporate Average Fuel Economy (CAFE) standards for motor vehicles here in the U.S.

Measurement of Success:

Try to ensure changes that are attempted regarding both mobile and stationary sources do not impose unreasonable burdens on the automotive industry.

Current Status:

The next joint meeting of the Government Relations Committee, Manufacturing Operations Committee, and the Technical Committee on environmental issues will be in the fall prior to the Global Climate Change Summit in Kyoto, Japan.

AIAM is a member of the Global Climate Coalition (GCC), a broad-based industry group which is attempting to educate the government and the public about the state of the science of global warming and is opposed to any concrete control measures. However, AIAM has been approached by another organization, the International Climate Change Partnership (ICCP) regarding membership. The message of the GCC is there is no scientific basis for global warming, while the ICCP says it is prudent to take reasonable actions to mitigate any potential warming problem. AIAM's Government Relations, Technical, and Manufacturing Operations Committees are considering whether to join ICCP rather than continuing with the GCC. Of note, Eileen Claussen, one of EPA's top climate negotiators has just left EPA to join Alcalde and Fay, the firm that coordinates the ICCP.

The next major Council of the Parties (COP) meeting (COP 3) on greenhouse gases is scheduled for Kyoto, Japan in December 1997. The Clinton administration has recently taken a more proactive stance in these negotiations supporting some long term reduction goals. A new Federal Advisory Committee on Climate Change, Energy and the Environment has been formed. AAMA is refusing to participate and a number of AIAM members that have been contacted are still considering whether to participate. Also of note is the fact that the Senate voted 95-0 in support of a resolution by Senator Byrd stating that the U.S. should not sign an agreement which does not include requirements on developing nations.

AAMA considers global climate a very high priority. At a recent meeting among AIAM, AAMA, NADA and AIADA, the trade association for the Big 3 presented a plan to initiate a comprehensive PR plan, including TV spots, on the issue. AIAM was asked to lend its name to the effort, but there was not enough time allowed to clear this with member companies.

The final rules on the revisions to the ozone and particulate matter (PM) National Ambient Air Quality Standards (NAAQS) have been published. An effort in the Congress is beginning to overturn these standards with the support of key lawmakers, including Dingell, Bliley, Breaux, Lott, and Gingrich. The American Trucking Association has already filed suit against EPA over these standards. AIAM's Manufacturing Operations Committee has agreed that AIAM should not take an active role in opposing these standards, so it is unlikely that we will participate in the lawsuits or in any substantive way in the Congressional action.

Options:

1. Continue monitoring global climate activities via either the GCC or ICCP

Lead Committee:

Government Relations Committee	Paul Ryan (Nissan), Chair	(202) 862-5523
	Morry B. Markowitz, AIAM Staff	(703) 525-7788

EXEMPT AUTO INDUSTRY FROM FASTENER QUALITY ACT

Impact:

The preliminary assessments of our member companies indicate that compliance with the Fastener Quality Act (FQA), as currently interpreted by the National Institute of Standards and Technology (NIST), would increase the costs \$11 to \$22 per vehicle, for a total of up to \$100 million per year for our members.

Measurement of Success:

Exempt the auto industry from requirements of the Fastener Quality Act.

Background:

Last year Congress passed amendments to the FQA which would exempt the fasteners of "major end users" such as automobile companies which use millions of fasteners each year. These 1996 amendments make it clear that the FQA is meant to cover only those fasteners manufactured to the standards and specifications of consensus standards organizations and government agencies, and clearly exempt the fasteners of major end users. However, in its rule, NIST has interpreted the law to cover the fasteners of major end users, such as automobile companies.

The auto industry already has quality assurance programs in place to ensure the safety of fasteners used in its products. Information from the National Highway Traffic Safety Administration (NHTSA) indicates that fastener failure is a negligible safety problem.

Current Status:

On April 15, AIAM sent a letter to the Bureau of Export Administration regarding an interpretation of the definition of "importer" that would have the effect of exempting any imports of fasteners by international auto manufacturers if they are purchased from overseas parents. We have not received a response yet, but will call them for a response after the formal proposal to incorporate modern quality assurance systems into the final rule is published, which is now expected on September 8. The proposal is expected also to address the issue of small volume spare parts. The Public Law Task Force, formed by U.S. fastener manufacturers to collectively consider issues arising from the FQA, is now conducting a survey asking if the fastener industry (meaning primarily the U.S. industry) wants the law repealed. One basis is that foreign manufacturers have a cost advantage for fasteners used in assemblies or vehicles shipped into the U.S. since FQA provisions do not apply in these cases. The Public Law Task Force has been contacting members of Congress about this inequity, so diligence is in order lest Congress does not repeal but removes the exemption for fasteners used in assemblies and completed vehicles.

Options:

1. Continue the current activities to seek modification of the Final Rule implementing the FQA to reduce the cost impact on fasteners used for vehicle assembly in the U.S. and for spares.

2.Begin an aggressive campaign to convince Congress to repeal the FQA. Seek a broad coalition of affected parties beyond those now active in this issue to assist the repeal efforts.

3. After commenting on the upcoming notice to incorporate modern quality assurance systems into the Final Rule implementing the FQA, drop this priority and related actions and accept the gains already achieved.

Lead Committee:

Government Relations Committee

Paul Ryan (Nissan) (202) 466-5284
Morry B. Markowitz, AIAM (703) 525-7788

MITIGATE ADVERSE IMPACT OF MMT USAGE

Impact:

AIAM activity is directed at elimination of methylcyclopentadienyl manganese tricarbonyl (MMT) from fuel since its presence in fuel is expected to increase warranty and recall costs and possibly require more expensive emissions control system design to offset its effects.

Measurement of Success:

Provide test data to EPA to support agency action to eliminate any adverse effects of MMT.

Current Status:

The AAMA/AIAM MMT task force met on August 21, 1997. Review of the emissions database continues to show that there are definite emissions detriments for the MMT fueled vehicles for some pollutants; however, it remains unclear whether these impacts will be large enough to cause failure of the emissions standards. In addition, if the test fleet is analyzed as a whole, the emissions impacts are less evident. The task force also reviewed the latest information from the pilot studies on catalyst aging. As in past meetings; the pilot studies have not identified a good methodology for catalyst aging for the fleet as a whole. The other important factor discussed is that the vehicles with spark plug maintenance intervals of 100,000 miles have started to show spark plug misfires on the MMT fleet. Because of the lack of success thus far in the pilot testing, the task force decided to recommend to the AAMA Vehicle Environment Committee (VEC) that the On Board Diagnostic (OBD) portion of the testing could be canceled. The task force also decided to recommend to the VEC that at least five of the ten models in the emissions test fleet continue to undergo mileage accumulation to 100,000 miles with testing at 65K, 80K and 100K miles. Further, the task force decided to recommend that three additional LEV models be added to the MMT test program for 100K mileage accumulation and emissions testing. The cost of the additional testing and mileage accumulation (estimated at \$3.5 million) will be offset to a large extent by the savings associated with the cancellation of the OBD testing; however, it is likely that AIAM will be asked to provide additional funding to support the extension of testing. In addition, it may be desirable to have one of the three additional LEVs be an AIAM vehicle.

Testing Summary:

- Emissions Portion: Mileage accumulation and emissions testing are continuing on schedule. Mileage accumulation of 50K miles should be completed during September 1997. Sixteen vehicles have completed 50 K mileage accumulation; 16 vehicles have completed 35K mileage accumulation and are nearing completion of 50K miles; and the remaining 8 vehicles have completed 25K mileage accumulation.
- OBD Portion: Lack of consistency with the catalyst aging procedure in pilot studies has resulted in a recommendation to cancel the OBD portion of the test program.

Options:

- 1. Continue the MMT test program as an AIAM priority

Lead Committee:

Technical Committee	Don Bearden (Subaru), Chair	(609) 488-8644
	John Cabaniss, AIAM Staff	(703) 525-7788
	Greg Dana, AIAM Staff	(703) 525-7788

PROMOTE AIR BAG SAFETY

Impact:

AIAM activities on air bag safety are designed to ensure that the public has a positive image of air bags, to promote safety belts and child restraints and their proper use with air bags, and to convince the National Highway Traffic Safety Administration (NHTSA) that a regulatory remedy will reduce the small potential of air bags to cause serious injuries and fatalities.

Measurement of Success:

Consumers' favorable view of and demand for air bags remains strong and NHTSA makes a change in Federal Motor Vehicle Safety Standard No. 208 to allow manufacturers to produce less aggressive air bags.

Current Status:

Industry and consumer groups met with the Office of Management and Budget in July to discuss the outcome of any sort of rule that would approve broad-based deactivation of air bags. George Parker was also present at the meeting to represent AIAM. Also, the Air Bag Safety Campaign's Management Committee met to approve the second year Public Education plan and budget. It is anticipated that in October there will be a meeting to discuss a possible extension of the Campaign beyond its original deadline of October, 1998.

Public Education Committee: The Public Education Committee met on June 18 to discuss public education efforts during Year One, as well as Operation ABC, and legislative media work. Budget and program proposals for Year Two were also discussed. Air bag child safety awareness is up considerably since last year --- it is now considered universal. As a result, this year's focus will be on legislative and enforcement efforts.

Legislative Committee: The Legislative Committee met on August 27 to discuss state primary legislative efforts for 1998. The Committee decided to fund 1998 legislative initiatives in New Jersey, Pennsylvania, Ohio, Indiana and Colorado. Illinois may be added to the list in 1998, if the bill receives support from the Secretary of State. The Committee may put some funds into Wisconsin to support initial legislative efforts. Florida, Alabama, Vermont and Minnesota were designated "study" states, subject to further review when circumstances warrant.

The Ohio Safety Belt Coalition, of which AIAM is a member, met on August 26 to discuss legislative strategy on H 449, the primary enforcement bill. Coalition members were given specific assignments to contact House Transportation and Public Safety Committee members that are undecided on the bill. In addition, a meeting with the Black Caucus has been scheduled to address the police harassment issue. The Cincinnati Enquirer ran a strongly -worded editorial on August 14 endorsing H 449. The Coalition will meet again on September 11. A Committee vote is likely in October. The Committee held three

hearings on the bill in May and June.

Federal Regulatory Initiatives

A coalition of auto manufacturers, air bag suppliers, insurance associations and companies, consumer advocates, and health organizations met with the National Transportation Safety Board on August 7 and August 20 to seek the National Transportation Safety Board's assistance in intervening with NHTSA and The Office of Management and Budget to oppose deactivation of air bags on demand. The National Transportation Safety Board chairman said he would intervene, but only staff contacts from the National Transportation Safety Board to NHTSA were made, with no evidence of a change in position by NHTSA. The same coalition met with NHTSA on August 29, but NHTSA seems committed to allowing the public to deactivate their air bags without having to obtain permission from NHTSA. The coalition has requested a meeting with the President's Domestic Policy staff to express opposition to the NHTSA position.

The Advanced Technology Air Bag Working Group was formed by NHTSA to facilitate development of a technical basis for a regulatory proposal on advanced technology air bags systems. To date, several meetings have been held. Little progress has been made, but NHTSA still indicates it will be publishing a proposal by the end of this year on requirements that would dictate advanced air bag systems to be phased in over the next few years.

Options:

1. Continue current course of opposing broad deactivation, working with NHTSA to develop an acceptable advanced technology air bag regulatory proposal, and participating in the Air Bag Safety Campaign.
2. Consider filing a lawsuit if NHTSA allows broad air bag deactivation.
3. Consider withdrawing from participation with NHTSA in developing an acceptable advanced technology air bag regulatory proposal since NHTSA is dictating the direction of the technical support work rather than seeking consensus.
4. Consider supporting the Air Bag Safety Campaign beyond the original two years.
5. Consider withdrawing from the Air Bag Safety Campaign since NHTSA has refused to address the current air bag issue in partnership with other interested parties.

Lead Committee:

Public Relations Committee: Kim Custer (Mitsubishi), Chair (714) 372-6428
Robert Carlson (Porsche), Vice Chair (702) 348-3707
Morry B. Markowitz, AIAM Staff (703) 525-7788

IMPROVE PUBLIC AWARENESS OF INTERNATIONAL AUTOMAKERS CONTRIBUTIONS TO THE UNITED STATES

Impact:

Improving the public's awareness of AIAM member companies' economic, social and technological contributions to the U.S. economy and consumers enhances the public's positive perception of our member companies. Having a good public image is good for business and promotes equal national treatment.

Measurement of Success:

Increased awareness of AIAM member companies' economic, technological, safety, environmental, and consumer contributions to the United States. Improve image of AIAM as a source for reliable information regarding the international auto industry to the press and opinion leaders both inside and outside the Capital Beltway.

Current Status:

The following media related activities took place over the month of August:

On August 9, Phil attended the opening of the Automotive Hall of Fame's new facility in Dearborn, Michigan. On August 28, Phil, Morry and a number of other people from the Association attended the Joint Industry Meeting, held at AIAM's offices. Other participants included Andy Card from AAMA, Frank McCarthy from NADA, and Walter Huizenga from AIADA. On September 2, George Parker was interviewed by *Dateline* as an industry representative on the subject of SUVs and rollover propensity.

With the launch of AIAM's new web site in May, we have been receiving an average of 5,000 hits per week, or 20,000 hits per month. 1997 postcards were not sent out during the month of August, due to the Congressional recess, however, they will continue to be sent out in September on a weekly basis to over 2,500 people, including all House and Senate members, Governors, key Administration officials, economic development officials, plant state officials, and leading economists, as well as our media list, which includes trade, business, political, automotive reporters and editors.

Lead Committee:

Public Relations	Kim Custer (Mitsubishi), Chair	(714) 372-6000
	Robert Carlson (Porsche), Vice Chair	(702) 348-3707
	Morry B. Markowitz, AIAM Staff	(703) 525-7788

Options:

1. AIAM should maintain its current level of activity.
2. AIAM should create an enhanced public education program to reach a broader population.
3. AIAM should lessen its current level of activity.

REVISE STATE FRANCHISE LAWS

Impact:

AIAM work on state franchise legislation is designed to promote a pro-manufacturer business environment and to minimize manufacturer and consumer costs related to state franchise laws.

Measurement of Success:

Amend or defeat legislation harmful to manufacturers, dealers, and consumers pertaining to market areas, relocations, warranty reimbursement, and termination.

Current Status:

Rapidly changing circumstances in the retail marketplace have prompted dealers to seek greater protections through franchise law amendments. Legislation this year addressed such issues as 1) dealer cutbacks by GM, Ford and Chrysler, 2) dealer dualing practices, 3) third party standing in buy/sells, 4) state dealer boards, 5) dealer relocation policy, 6) differential vehicle pricing, and 7) allocation of the same line makes to all dealers carrying that line. Franchise issues were tackled in 1997 in:

Maine, New York, Maryland, North Carolina, Florida, Missouri, Texas, New Mexico and California. At this point, franchise issues can be expected in 1998 in Maine, New York, New Jersey, Maryland, Virginia, Florida, Texas (preliminary for 1999) and Ohio.

In June a new Ad Hoc State Franchise Law Committee (franchise lawyers and state relations representatives) met to evaluate the Association's efforts on franchise legislation, particularly because the interests of AIAM members frequently diverge from those of GM and Ford (who have traditionally taken the lead on franchise matters). As a result of the meeting, specific actions were identified to 1) improve communications, 2) develop priorities and , 3) address resource needs in 1998.

One potential strain on AIAM resources in 1998 would be wide-spread introduction of dealer-sponsored legislation prohibiting factory-owned stores designed to pre-empt a marketing strategy to be launched by an AIAM member early in 1998.

On September 8 and 9 AIAM, AAMA, and RVIA will interview economists in Texas to conduct a study on the consumer impact of the state's franchise law. Such a study would be used by manufacturers to address franchise issues in the Texas Legislature in 1999. Recommendations regarding hiring a specific economist will be made to the AIAM Ad Hoc State Franchise Law Committee. Joint funding of the study and the public relations plan is possible between AIAM, AAMA and RVIA.

In late September company franchise attorneys will complete work on draft franchise position papers on the following issues: 1) right of first refusal, 2) disappointed buyer

standing, 3) manufacturer pricing to dealers, 4) full-line forcing, 5) manufacturer ownership of retail facilities, and 6) manufacturer standards for transfer of ownership.

Lead Committee:

State Relations	Bill Cannell (Nissan), Chair	(202) 862-5523
	John H. Dane, AIAM Staff	(703) 525-7788

Options:

1. Maintain current level of funding which is reflected in the fiscal year 1997-98 budget. This approach has meant substantial involvement in state franchise issues by the Lawyers Committee and State Relations Committee now working together in a new Ad Hoc State Franchise Committee formed in mid-1997. The current level of funding permits AIAM to work on a more equal footing with AAMA when engaged in franchise negotiations with dealers.
2. Increase or decrease the proposed level of funding in fiscal year 1997-98. While increasing or decreasing the level of funding for franchise work would adjust AIAM's involvement in franchise work accordingly, the current level reflects a consensus view that the current level of effort is appropriate for this fiscal year.